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TAGS: [ECON](#) [EINV](#) [CH](#) [TW](#)

SUBJECT: TAIWAN RETAILERS FOCUSED ON PRC MARKET

REF: A. TAIPEI 136

[B. TAIPEI 3122](#)

Classified By: AIT Director Douglas H. Paal, Reason 1.4 d

Summary

[¶1. \(C\)](#) Taiwan's economic ties with the PRC increasingly extend beyond manufacturing, and Taiwan retail activity in the Mainland is growing rapidly. The members of Taiwan's Association for Chain Store and Franchise Promotion (ACFP) count 26,000 stores, restaurants, entertainment facilities and other retail establishments in Taiwan. The same firms currently have more than 10,000 establishments in the PRC, the vast majority created in the last three years. Franchises and joint ventures are the most common structure for Taiwan retail activity in the Mainland, and Taiwan firms are active across a range of retail products. This kind of activity does not have much effect on Taiwan's trade and investment figures, but it may be having a widespread and profound impact on people's lives in both areas and on attitudes towards the opposite side of the Strait. End summary.

More than 10,000 Stores and Restaurants in the PRC

[¶2. \(U\)](#) Taiwan's manufacturers have invested large sums in the Mainland, making the PRC the production base for many of Taiwan's most important industries. The first wave of investment consisted mainly of labor-intensive goods, such as textiles, toys, and other plastic products. High tech industries soon followed. Today, at least 70 percent of the IT hardware produced by Taiwan firms is made in the PRC. Other capital-intensive industries, such as petrochemicals, steel and cement manufacturing, have also increased investment in the Mainland (refs A and B).

[¶3. \(U\)](#) However, Taiwan's economic ties with the Mainland extend beyond manufacturing. One sector that receives little attention is retail trade. The degree of these activities is not captured in most cross-Strait economic statistics. The expansion of Taiwan retail franchises in the PRC does not have much impact on investment statistics because the owner/operators often use funds obtained locally. Through June 2005, cumulative figures for approved Taiwan investment in the PRC showed that wholesale and retail trade accounted for only 1.8 percent of investment. Data for the first half of the year showed a similar proportion. Because many of the goods these stores sell are produced in the PRC, the effect on trade is also small. Nevertheless, Taiwan's franchises and chain stores have been rapidly expanding their activities in the Mainland.

[¶4. \(C\)](#) Taiwan's Association for Chain Store and Franchise Promotion (ACFP) has 250 member firms. Together they account for a total of 26,000 stores, restaurants, entertainment facilities and other retail establishments in Taiwan. ACFP Secretary General Beryl Lee told AIT/T that the members currently have over 10,000 establishments in the PRC, the vast majority created in the last three years. Lee predicted that by the end of the year stores in the PRC would top 12,000. Lee said that so far Taiwan's franchisers and chain stores had been most successful at penetrating PRC markets with fast food outlets, department stores, convenience stores, and book stores. Lee believes that ACFP's members have focused more on northern and central coastal areas of China. She said that Taiwan firms had been less active in southern China with the exception of Guangzhou and Shenzhen. Taiwan firms have most frequently used joint ventures and franchise agreements to enter the Mainland retail market. Some of the successful franchises that Lee mentioned included Ordifen, which has more than 1,000 women's undergarment stores in the PRC, and Yon Ho with more than 100 breakfast fast food establishments.

For Example, Star Bookstore...

15. (C) Star Bookstore is another franchise that is expanding rapidly in the PRC. Currently, the firm has 500 establishments in Taiwan, 100 in the PRC, and another 100 stores distributed among other areas with large numbers of ethnic Chinese. Star Bookstore's primary source of revenue is book rentals. In addition, it is developing a line of women's accessories under the "Starfly" brand name that are sold in the bookstores as well as in separate dedicated franchise stores. Vice President for Public Affairs Karen Yang told AIT/T that the franchise start-up fees in the PRC at NTD 600,000 (about USD 18,000) are about half of those in Taiwan and include the costs of interior fixtures, information systems hardware and software. Afterwards, the firm collects ten percent of the franchise's profits every month. She said that initially most of the franchise stores in the Mainland were owned by Taiwan investors. However, about half of new stores are now being built by Mainlanders.

I-Stone Jewelry...

16. (C) I-Stone started out as a manufacturer of semi-precious jewelry and moved its factory from Taiwan to Guangzhou in 1991. The firm did not have any of its own retail outlets until 2000. According to I-Stone President Stoney Su, the firm now has approximately 700 franchise stores in the PRC. It does not have its own retail outlets in Taiwan. Its target is to have 2,000 stores in the Mainland in 2008. I-Stone does not charge any initial fees to establish a franchise store or charge royalties. Instead, its franchise agreements commit the franchisee to exclusively sell products made by I-Stone. The parent firm has a large advertising budget for China and provides consulting services to franchisees on management and interior store design. Su told us that because of the structure of its franchise agreements nearly all of the franchisees are Mainland Chinese. Su believes that because they are more familiar with local conditions, especially the legal system, Mainland investors run the franchises more effectively than Taiwan investors.

Easy Way Soft Drinks...

17. (C) Easy Way is a soft drink outlet franchise. It has about 500 franchise establishments in Taiwan, 20 in the United States and a few in Australia. In the PRC, there are currently more than 90 Easy Way establishments, mostly in the Guangzhou area. In Taiwan, most of the outlets are take-out stands, but in China most are restaurants with seating. Initially all of the franchise operators were Taiwan investors, but the number of Mainland franchisees is increasing.

Uni-President Group (Starbucks)

18. (C) Large Taiwan enterprises have also been active in penetrating the Mainland retail market. President Group, which owns the 7-Eleven franchise in Taiwan, was unable to secure those franchise rights for the PRC. Those rights were instead claimed by Ito Yokado the franchise owner in Japan, which also has a majority stake in 7-Eleven Inc., the U.S. firm that owns the 7-Eleven brand. However, Uni-President has been active in the Mainland's retail market in other ways. The firm has a joint venture with Starbucks that owns 66 Starbucks outlets in the Shanghai area. In addition, Uni-President has three joint venture hypermarkets with France's Carrefour. It also has ten Cosmed drug and cosmetic stores in the PRC, building on its Taiwan chain.

Comment - Small Investment, Deep Impact

19. (C) Manufacturing investment and trade in electronics goods and components dominate the picture when you look at cross-Strait macro-economic data. Even after a more thorough look, the figures might not fully show the degree of cross-Strait economic integration and the rapid rate at which the two economies are becoming more tightly bound. The amount of Taiwan retail activity in the Mainland is one aspect of the cross-Strait relationship that might escape notice at first. Nevertheless, if the members of Taiwan's ACFP are a representative sample, Taiwan chain stores and franchises have nearly 40 percent as many establishments in the Mainland as they have in Taiwan, and this percentage will almost certainly rise rapidly in coming years.

10. (C) Taiwan retailers view the PRC market as their best opportunity for growth. With growing numbers of Mainland investors establishing Taiwan franchises, more and more PRC retailers will depend on economic ties to Taiwan.

Furthermore, PRC consumers will increasingly seek out Taiwan brand products, Taiwan marketing and advertising specialists will be more focused on Mainland trends, and PRC preferences could begin to have a stronger effect on products and consumption habits in Taiwan. This type of activity may not require the level of financial commitment that building a factory does, but it could have a more widespread and profound impact on the lives of more individuals on either side of the Strait and their views of the opposite side. End comment.

PAAL